

## SUBCOMMITTEE NO. 2

## Agenda

Alan Lowenthal, Chair  
Darrell Steinberg  
Dave Cogdill



Monday, April 28, 2008  
10:00 a.m.  
Room 2040

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### Resources—Environmental Protection—Energy

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## Vote-Only Calendar

### Budget Balancing Reductions

Org Code	Description	(000) 2007-08	(000) 2008-09	(000) GF Remaining	Total Program Budget (000)
8570	Department of Food and Agriculture - Marketing, Commodities, and Agricultural Services	-\$237	-\$222	\$ 2,003	\$ 60,871
8570	Department of Food and Agriculture - General Agricultural Activities	-\$263	-\$1,475	\$ 13,269	\$ 41,889
8570	Department of Food and Agriculture - Executive and Administrative Services	\$0	-\$664	\$ 5,977	\$ 18,821

**Staff Recommendation.** Staff recommends that the Subcommittee accept the Governor's proposed budget balancing reductions shown in the chart above.

## 3360 Energy Resources Commission

### 1. Implementation of the Expanding PIER Natural Gas Research Program

**Background.** In 2000, the Legislature directed the California Public Utilities Commission (PUC) to establish a surcharge on natural gas ratepayers to fund “cost-effective energy efficiency and conservation activities and public interest research and development.” In 2004, the PUC designated the Energy Commission as the statewide administrator of the Public Interest Energy Research (PIER) natural gas research program. The PIER natural gas program projects strive to advance science or technology, and all projects are directed to meet public interest objectives of improving environmental quality; electricity system reliability; public health and safety; or reducing costs to ratepayers.

**Funding.** The PIER natural gas program is funded from a surcharge on natural gas ratepayers. On August 19, 2004, the PUC issued decision D.04-08-010 approving \$12 million during calendar year 2005 for natural gas-related energy research. Pursuant to the PUC order, the amount would be increased by \$3 million annually up to \$24 million total. For fiscal year 2008-09 the funding level is anticipated to be \$21 million. One-third of these funds are reserved for transportation-related research. The Energy Commission uses fifteen percent of the PIER natural gas funding for support activities.

**Program.** The PIER natural gas program focuses on developing science or technologies that benefit natural gas end-users in the residential, commercial, industrial, and agricultural market sectors. The program also funds research involving the safe, efficient, and environmentally sound extraction, production, storage, transportation, and distribution of natural gas.

**Governor’s Budget.** The Governor’s Budget proposes \$422,000 from the Public Interest Research, Development, and Demonstration Fund Natural Gas Subaccount and three new positions to provide technical expertise for the PIER natural gas program.

**Staff Recommendation.** Staff recommends that the Subcommittee approve the budget proposal.

### 2. Implement Expanded Appliance Water Efficiency Program

**Background.** The Warren-Alquist Act requires that the Energy Commission adopt standards to reduce the wasteful, uneconomic, inefficient, or unnecessary consumption of energy and water. AB 662 (Ruskin, 2007) clarifies the Energy Commission’s authority to regulate water-using appliances to conserve both energy and water, allowing more comprehensive efficiency regulations of both hot and cold water. AB 662 requires the Energy Commission to implement an expanded appliance water efficiency standards, labeling, and certification program. Also, the Energy Commission is required to conduct compliance certification and enforcement activities for any new appliance efficiency regulation.

The requested contract funds would be for ongoing laboratory testing and analytical expertise needed to conduct compliance surveys and appliance testing.

**Governor's Budget.** The Governor's Budget proposes \$303,000 from the Energy Resources Programs Account and two permanent positions for implementation of AB 662.

**Staff Analysis.** The full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes.

**Staff Recommendation.** Staff recommends that the Subcommittee reject the budget proposal.

### 3. Fuel Temperature Dispensation Analysis

**Background.** The federal temperature standard for gasoline in California is 60 degrees. Liquids like gasoline expand at higher temperatures and condense at lower temperatures. This has led to concerns that California consumers may be paying more for gasoline because the gasoline sold to them may be at a temperature higher than 60 degrees.

**AB 868.** AB 868 (Davis, 2007) requires the Energy Commission, in partnership with the California Department of Food and Agriculture (CDFA) and the Air Resources Board (ARB), to conduct a cost-benefit analysis of fuel-dispensing options and make recommendations to the Legislature for future legislation as well as regulations regarding the reference temperature for fuel dispensation by December 31, 2008.

Specifically, AB 868 requires that the following occur:

- Conduct a fuel temperature survey – The CDFA is currently conducting a survey on the effect of temperatures on fuel deliveries;
- Conduct a Cost-Benefit Analysis – The Energy Commission will study the costs of various options relative to temperature-corrected gasoline gallon temperatures;
- Convene an advisory group – The Energy Commission will convene a group to comment on the study and provide guidance on the analysis and recommendations; and
- Conduct public hearings – The Energy Commission, CDFA, and ARB will conduct public hearings on the result of the studies.

**Consultant Tasks.** Funding is requested for a consultant to:

- Determine the density, thermal expansion factors, and other properties of various California transportation fuels;
- Determine the population of retail dispensers in California that could be subject to automatic temperature compensation (ATC);
- Identify the manufacturers and associated models of ATC pumps and retrofit devices that have been approved for use in Canada and the United States;
- Determine the purchase price and cost of installing ATC devices on pump nozzles at retail fuel facilities in California for both mechanical and electronic dispensers;

- Determine the cost of monitoring the calibration of the ATC devices once they have been installed; and
- Determine the maintenance costs and expected lifetime of the ATC devices.

**Governor's Budget.** The Governor's Budget proposes \$250,000 from the Energy Resources Programs Account for contracts to implement AB 868 (Davis, 2007).

**Staff Analysis.** The work required by AB 868 must be completed by December 31, 2008. In order to complete this task before the deadline, the Energy Commission should redirect resources to complete the required tasks. In addition, the full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes.

**Staff Recommendation.** Staff recommends that the Subcommittee reject the budget proposal.

## 4. Waste Heat and Carbon Emissions Reduction Act

**Background.** AB 1613 (Blakeslee, 2007) requires the Energy Commission to establish guidelines that combined heat and power systems must meet. The guidelines would ensure that combined heat and power systems be designed to reduce waste energy; meet an eligible customer-generator's expected thermal load; operate continuously in a manner that meets the expected thermal load and optimizes the efficient use of waste heat; and are cost effective, technologically feasible, and environmentally beneficial. The guidelines must be completed by January 1, 2010.

The three requested positions would research options for guidelines; administer a contract for technical support on combined heat and power system design; develop draft guidelines; administer a public process, including workshops, to obtain information on options; and develop a final report and recommendations for Energy Commission consideration.

The requested contract funds would be used to hire a consultant for analysis on optional approaches to balancing between continuous operation of a generator to match the host thermal load and maximizing efficiency.

**Governor's Budget.** The Governor's Budget proposes \$669,000 (\$300,000 one time) from the Energy Resources Programs Account, one permanent position, and two limited-term positions to implement mandates of AB 1613.

**Staff Analysis.** The full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes.

**Staff Recommendation.** Staff recommends that the Subcommittee reject the budget proposal.

## 7300 Agricultural Labor Relations Board

**Background.** The Agricultural Labor Relations Board (ALRB) is responsible for conducting secret ballot elections to determine collective bargaining representation in agriculture and for investigating and resolving unfair labor practice disputes.

**Governor's Budget.** The Governor's Budget proposes \$5.1 million General Fund to support the Agricultural Labor Relations Board. This is nearly the same level of support as in the current year. However, the budget balancing reduction reduces the level of support to \$4.6 million.

Summary of Expenditures						
(dollars in thousands)	2007-08		2008-09		\$ Change	% Change
Type of Expenditure						
Board Administration	\$	2,166	\$	2,174	\$ 8	0.4
General Counsel Administration		2,960		2,974	14	0.5
Administration Services		275		275	0	0.0
less distributed administration		-275		-275	0	0.0
Total	\$	5,126	\$	5,148	\$22	0.4
Funding Source						
General Fund	\$	5,126	\$	5,148	\$ 22	0.4
Total	\$	5,126	\$	5,148	\$ 22	0.4

**NOTE:** This chart does not reflect the proposed budget balancing reductions.

### 1. Budget Balancing Reduction

**Governor's Budget Balancing Reduction.** The Governor proposes a budget balancing reduction of \$515,000 General Fund to the Board and General Counsel of the Agricultural Labor Relations Board. A finance letter adjusts the number of positions that would be lost as a result of this reduction from 3.7 to 2.8.

**Impact of Reduction.** The proposed reduction would reduce the Board's budget from \$5,148,000 to \$4,633,000. The reduction would lead to the loss of a hearing officer, leaving ALRB with only one part-time judge. Cases would not be heard in a timely manner due to this reduction. This reduction comes at a time when the number of unfair labor practices charges

have increased 25 percent over two years. A finance letter adjusts the number of positions lost to 2.8 personnel years.

**Staff Recommendation.** Staff recommends that the Subcommittee accept the budget balancing reduction and approve the finance letter changing the personnel years cut to 2.8.

## 8570 Department of Food and Agriculture

### 1. Tulare Laboratory Consolidation and Replacement – Capital Outlay

**Project.** This project would consolidate two laboratories currently located at Tulare and Fresno into one new, full-service laboratory. The new laboratory would be about 37,431 square feet. The new laboratory would consist of offices, conference rooms, technical laboratories, shared laboratory support services, common areas, and additional facilities such as animal housing.

**Governor's Budget.** The Governor's Budget proposes \$2,587,000 General Fund for the working drawings phase of the Fresno/Tulare Laboratory Consolidation and Replacement project. The total project cost is estimated at \$47,452,000.

**Finance Letter.** The Governor submitted an April Finance Letter to shift funding for the project from General Fund to the Public Buildings Construction Fund (lease-revenue bonds). The finance letter also requests funding for the construction phase of the project at \$40,515,000, which includes construction and equipment. Lease-revenue bonds cannot be used unless the construction phase of the bond is funded.

**Staff Recommendation.** Staff recommends that the Subcommittee approve the finance letter.

### 2. Replacement of Failing HVAC Systems at the Center for Analytical Chemistry

**Project.** The Center for Analytical Chemistry consists of two buildings built in 1978 and 1991. These buildings are served by an aging heating, ventilation, and air-conditioning (HVAC) system that is increasingly breaking down. The current maintenance cost for the system of \$6,308 per month, and many of the replacement parts must be specialty made. The breakdown of the HVAC system has led to great swings in laboratory temperature from 33 to 84 degrees Fahrenheit in the winter to 59 to 95 degrees in the summer. Breakdown of the HVAC system also led to four closures of the laboratory between January 2007 and January 2008 and more than \$40,000 in freeze damage.

**Finance Letter.** The Governor submitted an April Finance Letter for \$2 million in one-time funds from the Agricultural Building Fund to support the replacement of heating and air-conditioning systems that are failing.

**Staff Recommendation.** Staff recommends that the Subcommittee approve the finance letter.

### 3. San Bernardino Property Acquisition – Capital Outlay

**Background.** The California Department of Food and Agriculture (CDFA) constructed a laboratory in 1982 on privately-owned land. The current owner is contemplating the sale of the land, but has agreed to allow CDFA to stay on the land for the cost of \$240,000 annually.

**Finance Letter.** The Governor submitted an April Finance Letter for \$2.3 million in one-time funds from the Department of Agriculture Building Fund for the purchase of three acres on which the San Bernardino laboratory is located.

**Staff Recommendation.** Staff recommends that the Subcommittee approve the finance letter.

### 4. Turlock Laboratory Replacement – Capital Outlay

**Background.** The California Animal Health and Food Safety Laboratory System (CAHFS) provides broad-based surveillance for all catastrophic animal diseases not currently found in the United States. CAHFS must detect an introduction of highly contagious diseases like avian influenza and foot-and-mouth disease. The California Department of Food and Agriculture also relies on CAHFS to develop and incorporate the latest laboratory technologies in order to support its mission to protect public and animal health.

**Project.** This project would construct a new 35,575 square foot laboratory in the Turlock/Modesto area to replace the current lab in Turlock. The new laboratory would be located at the northern region of the San Joaquin Valley in an area of high animal density.

The current Turlock laboratory is 3,342 square feet. It suffers from a number of deficiencies, including being incompatible with the technological needs of a modern laboratory; health and safety issues; heating, ventilation, and air conditioning issues; biosafety containment issues; and lack of nearby land on which to expand.

**Governor's Budget.** The Governor's Budget proposes \$2,515,000 General Fund for the working drawings phase of the Turlock Laboratory Replacement. The total project cost is estimated at \$46,873,000.

**Staff Analysis.** Due to the General Fund condition this project can be delayed for one year.

**Staff Recommendation.** Staff recommends that the Subcommittee reject the budget proposal.



## 5. Budget Balancing Reduction – Agricultural Plant Health and Pest Prevention Services

**Budget Balancing Reduction.** The Governor proposes a reduction of \$4,945,000 General Fund to the Agricultural Plant Health and Pest Prevention Services program at the Department of Food and Agriculture.

**Impact of Reduction.** The proposed reduction would eliminate all the Diaprepes Root Weevil eradication activities; a portion of the Pierce Disease Control Program; and a portion of the survey activity for the Red Imported Fire Ant program. The Agricultural Plant Health and Pest Prevention Services program would be left with \$62,502,000.

**Staff Analysis.** Accepting the reduction to the Diaprepes Root Weevil eradication program would allow this pest to spread throughout California at a great economic cost. The Diaprepes Root Weevil can feed on 270 different plants, but it prefers citrus which can be decimated by its larvae.

**Staff Recommendation.** Staff recommends that the Subcommittee reject the cut to the Agricultural Plant Health and Pest Prevention Services.

## 6. Budget Balancing Reduction – Animal Health and Food Safety

**Budget Balancing Reduction.** The Governor proposes a reduction of \$1,329,000 General Fund to the Animal Health and Food Safety program at the Department of Food and Agriculture.

**Impact of Reduction.** The proposed reduction would eliminate the National Animal Health Monitoring and Reporting Systems; biologics regulation; Animal Care Program; and aspects of the Meat Inspection Program.

**Staff Analysis.** Given the violations at a single meat packaging plant in California and the negative impact that incident had on the California meat industry as a whole, it may not be prudent at this time to reduce the meat inspection program. Also, other programs at the Department of Food and Agriculture that deal with food safety are critical to ensuring that dangerous substances or contaminated products do not enter the food supply.

**Staff Recommendation.** Staff recommends that the Subcommittee reject the cut to the Animal Health and Food Safety program.

## 8660 Public Utilities Commission

### 1. Water Conservation Rate Design and Programs

**Background.** The Division of Ratepayer Advocates (DRA) is an independent entity within the California Public Utilities Commission (PUC). One of the tasks DRA is charged with is reviewing the rate design structure of water utilities. Water utilities file a general rate case every three years, as required by the PUC.

Rate design analysis is based on consumption. The state is currently considering a shift to conservation rate design, which would include increasing block rates to provide the price signal to customers to encourage conservation. This new rate case schedule will consolidate the cost of capital for some utilities and change the data that accompanies applications. These new applications will require additional staff resources for review.

**Governor's Budget.** The Governor's Budget proposes \$102,000 from the Public Utilities Commission Ratepayer Advocate Account and one position to perform the design of water conservation rate structures and to evaluate non-price related conservation programs that are consistent with PUC guidelines and the California Urban Conservation Council's best management practices.

**Staff Recommendation.** Staff recommends that the Subcommittee approve the budget proposal.

### 2. Division of Ratepayer Advocates Auditors

**Background.** The Division of Ratepayer Advocates (DRA) is an independent entity within the California Public Utilities Commission. DRA is charged with advocating on behalf of the customers of regulated utilities to ensure the lowest possible utility rates, consumer protection, service quality, and safety and reliability. Unique to DRA is participation in all PUC proceedings where DRA represents consumer interests. DRA works on energy matters (electric and gas), water rates and services, and telecommunications.

DRA is mandated by the PUC to audit all Class A water utilities every three years. These are water utilities with over 10,000 customers, and there are nine such utilities in the state. As part of the audit, DRA is supposed to conduct a comprehensive analysis of rates charged by the utilities in each of their 64 districts. It takes one staff member 6-8 months to conduct a single audit.

**Governor's Budget.** The Governor's Budget proposes \$300,000 from the Public Utilities Commission Ratepayer Advocate Account and three positions to perform audits of water company financial records in conjunction with general rate cases and other proceedings initiated either by the PUC or the utilities.

**Staff Recommendation.** Staff recommends that the Subcommittee approve this budget proposal.

### 3. Electric Generation Infrastructure and Energy Procurement

**Background.** Eleven billion dollars in energy procurement activities are charged to electric ratepayers each year. In addition, the California Energy Commission's Integrated Energy Policy Report identifies a need for approximately 10,000 megawatts of new generation in the next few years. With new capacity costing approximately \$1 million per megawatt, this construction will cost about \$10 billion. The Public Utilities Commission (PUC) reviews the Long-Term Procurement Plans of the Investor Owned Utilities (IOUs). The PUC is currently in the middle of its second such review cycle.

**Governor's Budget.** The Governor's Budget proposes \$535,000 from the Public Utilities Commission Reimbursement Account and five positions to evaluate the cost effective procurement of electric resources.

**Staff Analysis.** This proposal seeks more funding for the PUC's Long-Term Procurement Plan review. However, the PUC is currently in the middle of its second such review cycle and was able to complete the first cycle successfully and identify problems with the plans that were addressed. It is not clear why more staff are needed for the second cycle than the first. Also, the Division of Ratepayer Advocates specializes in reviewing utilities plans for unnecessary expenses and can serve in the watchdog role for the state. During this difficult financial time for the state, it may not be prudent to grow the state's workforce.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

### 4. Coordinate and Implement Big and Bold Energy Efficiency Strategies to Maximize Energy Efficiency Savings Through 2020

**Background.** Current statute requires that utilities meet their "unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible." As a response to this statute, the Public Utilities Commission is launching a new aggressive approach to promote energy efficiency through "big and bold" statewide strategies for energy efficiency for the upcoming 2009-11 program cycle, and for the long-term through 2020. The PUC is aiming to create a framework for sustainable energy efficiency programs and other programs throughout the investor owned utility (IOU) service areas to reduce or avoid energy consumption, and a process for accomplishing those efforts through long-term IOU strategic planning that transcends regulatory, programmatic and jurisdictional constraints, and emphasizes a broader view of the energy efficiency landscape.

During the 2006-08 ratepayer cycle, the IOUs invested approximately \$2 billion into energy efficiency. Prior to 2006, the utilities performed the evaluation, measurement, and verification

function of their energy efficiency achievements. There are over 200 program areas and over \$118 million in consultant contracts for this function.

**Proposal.** This proposal contains two major functions:

- Strategic planning, coordination, and oversight of the utilities' energy efficiency portfolios worth over \$8.4 billion in ratepayer investments for 2009 to 2020.
- Evaluation, measurement, and verification of energy savings from energy efficiency programs.

**Governor's Budget.** The Governor's Budget proposes \$548,000 from the Public Utilities Commission Utilities Reimbursement Account and five positions for energy strategy planning and evaluation.

**Staff Analysis.** The energy efficiency program being launched by the Public Utilities Commission is a new program and the evaluation, measurement, and verification function is a new function for the PUC. The full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 5. Electric Transmission System Planning, Permitting, and Cost Recovery

**Background.** Due to a recent interest in renewable energy, and the need to construct renewable energy facilities, the Public Utilities Commission (PUC) anticipates receiving about 19 applications for major transmission projects totaling \$4 billion during 2008-09. Over the preceding decade, the PUC received one application annually. The PUC must review the CEQA documents for these projects.

**Proposal.** With the proposed funds, the PUC would:

- Develop and implement the Renewable Energy Transmission Initiative;
- Determine the economic need for an escalating number of new proposed transmission projects that are part of the investor-owned utilities' Long-Term Procurement Plans, Local Capacity Requirements, and California's Renewable 2020 Goals; and
- Perform the environmental document review and support the permitting of Certificates of Public Convenience and Necessity or Permits to Construct for critical transmission projects.

**Governor's Budget.** The Governor's Budget proposes \$299,000 from the Public Utilities Commission Utilities Reimbursement Account and three positions to meet new workload in transmission project applications.

**Staff Analysis.** The Renewable Energy Transmission Initiative is a new program. The full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 6. Transmission Infrastructure Planning in California

**Background.** The Division of Ratepayer Advocates (DRA) is an independent entity within the California Public Utilities Commission (PUC). DRA is charged with advocating on behalf of the customers of regulated utilities to ensure the lowest possible utility rates, consumer protection, service quality, and safety and reliability.

Due to a recent interest in renewable energy, and the need to construct renewable energy facilities, the PUC anticipates receiving about 19 applications for major transmission projects totaling \$4 billion during 2008-09. Over the last preceding decade, the PUC received one application annually. DRA's role is to independently evaluate the economic and reliability need for transmission projects from the perspective of the consumers who will pay for the projects while also looking at broader energy policy goals and resource planning priorities for the investor-owned utilities.

**Governor's Budget.** The Governor's Budget proposes \$210,000 from the Public Utilities Commission Advocate Account and two new positions to accommodate 19 new applications for certificates of public convenience and the necessity for major transmission projects.

**Staff Analysis.** This proposal is complementary to proposal #6, Electric Transmission System Planning, Permitting, and Cost Recovery and thus should also be rejected.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 7. Bioenergy Action Plan and Expansion of Distributed Generation Resources

**Background.** The Governor's Executive Order S-06-06 directs the Public Utilities Commission (PUC) to initiate a new proceeding or build upon existing proceedings to encourage sustainable use of biomass and other renewable resources by the state's investor owned utilities. The Governor sets the following targets for the production and use of bioenergy: the state should produce a minimum of 20 percent of its biofuels within California by 2010; 40 percent by 2020; and 75 percent by 2050. In addition, the state should use bioenergy fuels to meet 20 percent of the overall renewable portfolio standard requirements.

The PUC has a number of programs in place that support bioenergy in a variety of ways. These programs and policies include: Net Metering, Power Purchase Agreements, Bioenergy Interconnection Rules, Implementation of Renewables Power Purchase Tariff, Self Generation Incentive Program, Renewable Portfolio Standard Program, and the Greenhouse Gas Emissions Performance Standard. The PUC would use the requested staff to pursue policy and program opportunities, including a new tariff design, to increase the use of bioenergy.

**Governor's Budget.** The Governor's Budget proposes \$317,000 from the Public Utilities Commission Reimbursement Account and three positions to work on the Bioenergy Action Plan.

**Staff Analysis.** The full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes. The PUC already has a number of programs that promote the use of biofuels, so rejection of this proposal would not leave this emerging field without support.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 8. Waste Heat and Carbon Emissions Reduction Act

**Background.** Combined heat and power systems and other direct generation systems reduce the need for transmission projects and reduce peak demand for electricity by providing that electricity locally. Combined heat and power systems produce both electricity and steam from a single fuel source – usually natural gas. The combined heat and power system recovers the heat that would otherwise be wasted.

AB 1613 (Blakeslee, 2007) authorizes the Public Utilities Commission (PUC) to require electrical corporations to establish a tariff or contract for the purchase of excess electricity generated by combined heat and power units of up to 20 megawatts at a price to be determined by the PUC. AB 1613 also requires the PUC to establish a pilot program to allow customers to finance the purchase of combined heat and power units. These combined heat and power units are required to meet specified efficiency and emissions requirements.

**Governor's Budget.** The Governor's Budget proposes \$396,000 from the Public Utilities Commission Utilities Reimbursement Account and four positions in order to implement AB 1613.

**Staff Analysis.** The full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 9. Rail Transit Safety Program

**Background.** The Public Utilities Commission (PUC) regulates rail transit safety by enforcing both state and federal law. The PUC's Rail Transit Safety Section (RTSS) is in charge of transit rail such as the Bay Area Rapid Transit and the San Francisco Municipal Transportation Agency. The RTSS has historically been comprised of staff members with engineering degrees and backgrounds. This is why the actual rail inspections have been frequently conducted by loaning staff from the freight rail Rail Operations Safety Branch.

**Governor's Budget.** The Governor's Budget proposes \$410,000 from the Public Transportation Account, State Transportation Fund for four positions to conduct accident investigations and random and scheduled inspections.

**Staff Analysis.** California is currently nationally recognized as a leader in rail transit safety to such an extent that the federal government's 2005 rail transit oversight guidelines were in large part based on California's example. Given the good work the PUC is currently doing managing the state's transit rail safety, and the current budget crisis, it may not be prudent to grow the state's workforce at this time.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 10. Mobilehome Park and Propane Gas Safety Program

**Background.** The Public Utilities Commission (PUC) oversees the safety of approximately 2,600 mobilehome parks and 700 propane gas systems throughout the state. Each of these two programs has a dedicated database for recording inspection data, annual reports, and jurisdictional status of each entity. The PUC is currently experiencing a backlog in performing the administrative and database work associated with its mobilehome park and propane gas safety programs. Accurate and up-to-date databases are critical for scheduling inspections on time and documenting that they have been conducted.

**Governor's Budget.** The Governor's Budget proposes \$62,000 (\$31,000 from Reimbursements and \$31,000 from Federal Trust Fund) and one limited-term position to reduce the backlog in the Mobilehome Park and Propane Gas Safety programs.

**Staff Analysis.** This proposal is for administrative workload, yet it is not clear how many points the PUC might lose in the federal Office of Pipeline Safety audit due to the Propane Gas Safety Program's out-of-date database.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 11. Charter Party Carrier Enforcement Activities

**Background.** AB 1310 (Leno, 2007) requires the Public Utilities Commission (PUC) to investigate a limousine-for-hire and passenger charter transportation business upon a complaint that contains sufficient information to warrant an investigation. This new requirement removes the PUC's discretion to investigate complaints as staff sees fit.

**Governor's Budget.** The Governor's Budget proposes \$96,000 from the Public Utilities Commission Transportation Reimbursement Account and one position to implement AB 1310.

**Staff Analysis.** The full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 12. Expansion of PUC Bilingual Services Program

**Background.** The Bilingual Services Act (BSA) mandates that state agencies eliminate language barriers that preclude equal access to public services. All Californians purchase some type of regulated utility service. The PUC is striving to provide the following services beyond the requirements of BSA to people who have limited English proficiency:

- Improve services to California telecommunications customers who do not speak English fluently;
- Ensure Limited-English Proficient (LEP) customers have just, adequate, and reasonable access to the information and assistance they need to obtain and maintain telecommunications services, and help protect LEP customers from fraud or abuse;
- Require staff to design and implement a program that integrates community based organizations in the PUC's language outreach, education and complaint resolution processes;
- Require staff to oversee the telecommunications carriers, both wireline and wireless, that market to telecommunications customers in-language and ensure that the carriers' LEP customers receive, in that same language, appropriate notices, disclosures, and other important transaction or service related information already required for carriers serving customers in English.

**Governor's Budget.** The Governor's Budget proposes \$132,000 from the Public Utilities Commission Utilities Reimbursement Account and two positions for the PUC Bilingual Services Program.

**Staff Analysis.** Though it is admirable that the PUC wants to provide services to LEP telecommunications customers above and beyond what is required by BSA, given the state's current budget condition it may be prudent to delay by one year.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.



### 13. Establishment of a Project Management Office

**Background.** The Public Utilities Commission (PUC) Information Services Branch (ISB) has 11 different divisions. The ISB has not developed standards, processes, methods, tools, templates, and documentation for the implementation of Information Technology projects. Thus IT projects are accomplished, but not using standardized methods. There is no central point to manage and approve the collection of projects and no single source for information on project activity across the IT enterprise.

**Governor's Budget.** The Governor's Budget proposes \$199,000 from various special funds and two positions to establish a Project Management Office in the Information Services Branch.

**Staff Analysis.** The full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

### 14. Centralized Fine and Restitution Collections

**Background.** The California Public Utilities Commission (PUC) is responsible for regulating privately owned telecommunications, electric, natural gas, water, railroad, and passenger transportation companies. The PUC reviews and investigates complaints and allegations of wrongdoing to ensure companies are operating in the public interest. When warranted, the PUC will levy fines and restitution against regulated companies if investigative efforts determine the companies failed to comply with laws or engaged in inappropriate practices. Fines levied by the PUC are transferred to the General Fund upon collection.

**Governor's Budget.** The Governor's Budget proposes \$236,000 in various special funds to consolidate the fine and restitution collection efforts as recommended by the State Controller's Office audit report.

**Staff Analysis.** The full committee, throughout its deliberations, has directed the subcommittees to carefully examine new program funding, irrespective of the funding source, and only move forward on matters that minimally are needed for critical health and safety purposes.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 15. Security Guards

**Background.** The Public Utilities Commission (PUC) is the sole occupant of its building in San Francisco. As the sole occupant, the PUC assumed responsibility and liability for the security of its staff and visitors who attend meetings, hearings, and workshops. Currently, the California Highway Patrol has a master service agreement with a private security company to provide security services at the PUC building. The contract is scheduled to terminate on June 30, 2010, but the PUC has the right to cancel the contract at any time during the term by way of a thirty-day notice to terminate.

**Governor's Budget.** The Governor's Budget proposes a savings of \$82,000 in various special funds and the creation of 13 permanent positions for security guards.

**Staff Analysis.** Creating permanent state employee positions at this time may not be in the state's best interest because while a contract can be eliminated positions are not easily removed. The Subcommittee rejected similar proposals for the Department of Fish and Game and the Department of Water Resources already.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## 16. Office Expansion Project

**Background.** Over the years new legislative mandates have caused an expansion of the Public Utilities Commission's (PUC) workforce. Also, the PUC has decided to move some of its employees around to different office locations in order to better serve constituents. The PUC has now reached the point where expansion in its current space is not possible according to the Department of General Services.

**Governor's Budget.** The Governor's Budget proposes \$1,889,000 from various special funds to expand the San Francisco, Los Angeles, and Sacramento Offices.

**Staff Analysis.** New space was needed for new employees requested through the budget proposals, but since so many of the budget proposals are declined there is not sufficient need for this proposal anymore.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

## Discussion Items

### 3360 Energy Resources Commission

**Background.** The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission or CEC) is responsible for forecasting energy supply and demand; developing and implementing energy conservation measures; conducting energy-related research and development programs; and siting major power plants.

**Governor's Budget.** The Governor's Budget proposes \$363 million to support CEC in 2008-09. The proposed budget is approximately 50 percent less than estimated expenditures in the current year due to a reduction in Renewable Resource Trust Fund. The department does not receive any General Fund support.

<b>Summary of Expenditures</b>					
<i>(dollars in thousands)</i>	<b>2007-08</b>	<b>2008-09</b>	<b>\$ Change</b>	<b>% Change</b>	
<b>Type of Expenditure</b>					
Regulatory and Planning	\$ 28,369	\$ 27,928	-\$441	-1.6	
Energy Resources Conservation	43,270	32,545	-10,725	-24.8	
Development	624,316	305,773	-318,543	-51.0	
Policy, Management, and Administration	13,765	21,017	7,252	52.7	
<i>less distributed administration</i>	-13,765	-21,017	-7,252	52.7	
<i>less loan repayments</i>	-2,662	-2,726	-64	2.4	
<b>Total</b>	<b>\$ 693,293</b>	<b>\$ 363,520</b>	<b>-\$329,773</b>	<b>-47.6</b>	
<b>Funding Source</b>					
Special Funds	675,158	335,334	-339,824	-50.3	
<i>Budget Act Total</i>	<i>\$ 675,158</i>	<i>\$ 335,334</i>	<i>-339,824</i>	<i>-50.3</i>	
Federal Trust Fund	12,390	22,366	9,976	80.5	
Reimbursements	5,745	5,820	75	1.3	
<b>Total</b>	<b>\$ 693,293</b>	<b>\$ 363,520</b>	<b>-\$329,773</b>	<b>-47.6</b>	

## 1. PIER Update

The California Energy Commission's Public Interest Energy Research (PIER) Program supports energy research, development, and demonstration (RD&D) projects that will help improve the quality of life in California by bringing environmentally safe, affordable, and reliable energy services and products to the marketplace.

The PIER Program annually awards up to \$62 million to conduct the most promising public interest energy research by partnering with RD&D organizations including individuals, businesses, utilities, and public or private research institutions. The PIER program provides another \$18 million for natural gas research, for a total of \$80 million in research funds.

The Energy Commission's Research, Development, and Demonstration Committee annually conducts a budget review of the PIER program in the spring before the beginning of each fiscal year; examines the status and progress of existing investments; and establishes initial target investment levels for the PIER program areas for the coming fiscal year, consistent with energy policy priorities. These allocations are based on executive orders, state legislation such as Senate Bill 1250 (Perata, Chapter 512, Statutes of 2006), the Energy Commission's Integrated Energy Policy Reports (IEPR), and interagency cooperation and coordination.

PIER brings new energy services and products to the marketplace and creates state-wide environmental and economic benefits. PIER funding efforts are focused on the following RD&D program areas:

- Buildings End-Use Energy Efficiency
- Climate Change Program
- Energy Innovations Small Grant Program
- Energy-Related Environmental Research
- Energy Systems Integration
- Environmentally-Preferred Advanced Generation
- Industrial/Agricultural/Water End-Use Energy Efficiency
- Natural Gas Research
- Renewable Energy Technologies
- Transportation Research

## 2. Responding to Legislative Direction for PIER Program

**Background.** In 2000, the Legislature directed the California Public Utilities Commission (PUC) to establish a surcharge on natural gas ratepayers to fund "cost-effective energy efficiency and conservation activities and public interest research and development." In 2004, the PUC designated the Energy Commission as the statewide administrator of the Public Interest Energy Research (PIER) natural gas research program. The PIER natural gas program projects strive to advance science or technology, and all projects are directed to meet public interest objectives of improving environmental quality, electricity system reliability, and public health and safety, or reducing costs to ratepayers.

**SB 1250.** SB 1250 (Perata, 2006) reauthorized funding for the PIER program from 2007 to 2011. SB 1250 also specified that the Energy Commission should develop science, technology, and knowledge that will directly impact the state's energy markets with new commercial products and services. SB 1250 expanded the PIER program's general goal from developing energy technology to also helping to bring that technology to the market.

**New Contract Funds.** Currently, the PIER natural gas program has \$1,573,000 in support budget contract funds. This proposal would increase the contract funds for support by \$2,427,000 to \$4 million total. The support contract funds would be used to hire consultants to write Request for Proposals (RFP) to solicit projects, as well as review project proposals received in response to an RFP.

**New Positions.** The proposal requests eight new positions, of which three would be for the requirements of SB 1250; one for PIER program evaluation; one for program support; and three for clerical support.

**Governor's Budget.** The Governor's Budget proposes \$3,222,000 from the Public Interest Research, Development, and Demonstration Fund and 8 new positions to provide technical expertise to respond to new legislative directions, provide administrative infrastructure needed to support the PIER program, and to increase the funds used to support the PIER program. \$2,427,000 of this amount would be for contract funds.

**Staff Analysis.** The Energy Commission has been criticized by the Legislature for relying too heavily on contracts to complete work. The request includes \$2,427,000 in contract funds, of which \$1,427,000 is returning the program to a level of contract funds it used to have until 2003. Returning the program to its past funding level is warranted, but growing the amount of contract funding beyond that point at a time when the Energy Commission's use of contracts has been criticized is not recommendable.

**Staff Recommendation.** Staff recommends that the Subcommittee approve \$2,222,000 of this amount, but reject \$1 million in new contract funding.

### 3. New Solar Homes Partnership Outsourcing

**Background.** SB 1 (Murray, 2006) restructured California's solar systems incentive programs and called for an expansion in the number of energy efficient, solar-powered homes in California by 2017. SB 1 calls for the installation of 3,000 megawatts of solar capacity over 10 years. In 2007 the Energy Commission launched the New Solar Homes Partnership (NSHP), a \$350 million program designed specifically to increase the number of new homes in California with solar power. The Energy Commission estimates that there will have to be 160,000 new, highly energy efficient solar homes to meet the program's requirements.

The NSHP is different from previous Energy Commission solar rebates programs in that it places emphasis on system performance and building energy efficiency. The NSHP includes a

photovoltaic (PV) system performance calculator software, PV module certification procedures, and third-party field-verification protocols.

**Current Funding.** The CEC already has \$500,000 in baseline funding to outsource the NSHP.

**Proposal.** The Energy Commission intends to contract with the state's three major investor owned utilities (IOU) to administer the NSHP program.

**Governor's Budget.** The Governor's Budget proposes \$500,000 from the Renewable Resource Trust Fund for contract funding to outsource the New Solar Homes Partnership.

**Staff Recommendation.** Staff recommends that the Subcommittee approve the budget proposal.

## 8660 Public Utilities Commission

**Background.** The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain video providers and passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

**Governor's Budget.** The Governor's Budget proposes \$1.2 billion to support the CPUC in the budget year. This is approximately \$150 million less than estimated expenditures in the current year. This is due to a large reduction in the California High-Cost Fund B Administrative Committee Fund, a special fund. The commission does not receive any General Fund support.

<b>Summary of Expenditures</b>				
<i>(dollars in thousands)</i>	<b>2007-08</b>	<b>2008-09</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Type of Expenditure</b>				
Regulation of Utilities	\$ 567,307	\$ 566,640	-\$667	-0.1
Universal Service Telephone Programs	814,636	663,655	-150,981	-18.5
Regulation of Transportation	21,447	20,899	-548	-2.6
Administration	26,855	29,123	2,268	8.5
<i>less distributed administration</i>	-26,855	-29,123	-2,268	8.5
<b>Total</b>	<b>\$ 1,403,390</b>	<b>\$ 1,251,194</b>	<b>-\$152,196</b>	<b>-10.8</b>
<b>Funding Source</b>				
Special Funds	1,383,339	1,231,138	-152,201	-11.0
<i>Budget Act Total</i>	<i>\$ 1,383,339</i>	<i>\$ 1,231,138</i>	<i>-152,201</i>	<i>-11.0</i>
Federal Trust Fund	1,246	1,272	26	2.1
Reimbursements	18,805	18,784	-21	-0.1
<b>Total</b>	<b>\$ 1,403,390</b>	<b>\$ 1,251,194</b>	<b>-\$152,196</b>	<b>-10.8</b>

## 1. Direct Access – Informational Item

**Background.** The California electricity industry was deregulated in 1996. A key provision of that deregulation was the opening of retail electric markets to competitors, known as Direct Access (DA). In 2000-2001 California was hit with an electricity crisis resulting in extraordinary increases in wholesale power cost increases due to abuse of the system by power generators. The electricity crisis threatened the solvency of California's major public utilities and the reliability of electric service in California.

California's disastrous 2000-01 electricity crisis raised questions about the contribution of the competitive retailers and marketers to the problem and therefore the wisdom of DA. The Legislature responded with three actions. First, the Department of Water Resources was charged with procuring electricity on behalf of California's bankrupt and nearly bankrupt utilities. Second, an unprecedented effort to encourage energy conservation and develop new generation was undertaken. And third, urgency legislation (AB 1X) was passed to suspend DA until DWR no longer supplied electricity. The last of the DWR electric supply contracts expire around 2015.

Last year the Governor's proposed funds for the CPUC to investigate reinstating DA before 2015. The Legislature rejected that proposal. Despite legislative direction the CPUC has redirected funds to continue work on this issue. Legislative leadership has urged the CPUC to abandon their DA reinstatement efforts, apparently to no effect.

One strategy that the Administration has considered for early reinstatement of DA is for DWR to renegotiate its contracts to reduce their duration. In late 2007 DWR renegotiated one of its largest electric supply contracts. This renegotiation was almost universally condemned as it has cost California electric customers hundreds of millions of dollars in higher costs.

**Governor's Budget.** The Governor's Budget does not include funds for direct access, but the PUC is redirecting funds to work on this issue.

## 2. Electricity Oversight Board Duties – Informational Item

**Background.** The Electricity Oversight Board (EOB) was created after the electricity crisis of 2001 to comprehensively oversee California's wholesale electricity market. While other energy agencies have a vested interest in the programs, market structures, or regulations they promulgate, only the EOB has no such ties to cloud its analysis and judgment. The critical functions performed by the EOB are: 1) wholesale market monitoring; 2) CAISO policy and budget oversight; and 3) legal intervention on behalf of California consumers.

**EOB Elimination.** As part of the 2007-08 Budget, the Governor introduced trailer bill language to eliminate the EOB. The Legislature rejected the trailer bill language. The Governor then vetoed a quarter of the funding for the EOB with the veto-message that the EOB should cease its activities by April 1, 2008. In the veto message the functions of the EOB were moved to the Public Utilities Commission.



**Governor's Budget.** The Governor's Budget includes no new funds for the Public Utilities Commission to absorb the Electricity Oversight Board's duties. The EOB in 2006-07 had a budget of about \$4 million.

### 3. Independent Monitoring of the CAISO's Newly Designed Wholesale Electricity Market

**Background.** The California Independent System Operator (CAISO) will implement a new market design called the "Market Redesign and Technology Upgrade" (MRTU) in the fall of 2008. The MRTU aligns California's electricity market with wholesale market designs throughout North America. The MRTU will establish an integrated forward market with day ahead trading; a full network model that "sees" bottlenecks before schedules actually run; provide for locational marginal pricing, which allows least cost decisions about how to fix bottlenecks; and puts new computer systems in place.

The California Public Utilities Commission (PUC) is required to analyze market data and make appropriate recommendations about the proper functioning of newly-designed competitive wholesale markets both at the CAISO and in Federal Energy Regulatory Commission (FERC) proceedings. Currently the PUC oversees the CAISO in an ad hoc basis and mainly relies on the CAISO to provide oversight of its own activities.

**Governor's Budget.** The Governor's Budget proposes \$253,000 from the Public Utilities Reimbursement Account and two positions to monitor the CAISO market after the implementation of a new market design.

**Staff Analysis.** The CAISO's MRTU has been delayed numerous times and is now scheduled for consideration in the fall of 2008. However, with all the past delays there is no guarantee it will actually take place. Also, the CAISO already has an independent market monitor. There is no indication that the CAISO has or will exert inappropriate control over its market monitor. Additionally, the FERC has initiated proceedings to consider mechanisms to maintain independence of market monitors. It would be prudent for the State to wait for the FERC ruling.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this budget proposal.

### 4. Teleconnect Fund Reappropriation

**Background.** The Teleconnect Fund provides financial assistance to schools, hospitals, libraries, and community-based organizations (CBO) on their utility bills. SB 909 (Bowen, 2006) provided \$2 million from the Teleconnect Fund for eligible CBOs to cover the one-time cost of installing or upgrading advanced telecommunications lines. These CBOs are non-profit organizations.

**Issue.** The funds provided in SB 909 will revert on June 30, 2008. The CBOs had a lot of trouble finding a telecommunications company that would provide them with internet service reimbursed from the Teleconnect Fund. This is because internet service is regulated by the Federal Communications Commission, but the Teleconnect Fund is a California regulated fund under the Public Utilities Commission. Even though accepting the Teleconnect Funds does not subject an internet provider to additional regulations, many companies have been hesitant to agree to provide reimbursed services. A company has now stepped forward to agree to provide internet connections to CBOs, but the funds are about to expire.

**Staff Recommendation.** Staff recommends that the Subcommittee reappropriate \$2 million from the Teleconnect Fund for SB 909 implementation.

## 8570 Department of Food and Agriculture

**Background.** The California Department of Food and Agriculture (CDFA) provides services to both producers and consumers of California's agricultural products in the areas of agricultural protection, agricultural marketing, and support to local fairs. The purpose of the agricultural protection program is to prevent the introduction and establishment of serious plant and animal pests and diseases. The agricultural marketing program promotes California's agricultural products and protects consumers and producers through the enforcement of measurements, standards, and fair pricing practices. Finally, the department provides financial and administrative assistance to county and district fairs.

**Governor's Budget.** The Governor's Budget proposes \$265.5 million to support CDFA in 2008-09. This is approximately \$8.7 million more than the level of expenditures estimated in the current year. However, \$2.3 million of this increase disappears with the budget balancing reductions recommended for acceptance to this Subcommittee.

<b>Summary of Expenditures</b>				
<i>(dollars in thousands)</i>	<b>2007-08</b>	<b>2008-09</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Type of Expenditure</b>				
Agricultural Plant and Animal Health; Pest Prevention; Food Safety Services	\$ 178,693	\$ 179,337	\$ 644	0.4
Marketing; Commodities and Agricultural Services	60,091	60,871	780	1.3
Assistance to Fair and County Agricultural Services	26,689	26,120	-569	-2.1
General Agricultural Activities	43,526	41,889	-1,637	-3.8
Capital Outlay	3,611	4,868	1,257	34.8
Executive, Management, and Administration Services	18,349	18,821	472	2.6
<i>less distributed administration</i>	-16,906	-17,336	-430	2.5
<b>Total</b>	<b>\$ 314,053</b>	<b>\$ 314,570</b>	<b>\$517</b>	<b>-0.2</b>

**Funding Source**

General Fund	\$ 107,831	\$ 113,804	\$ 5,973	3.4
Special Funds	148,994	151,751	2,757	2.6
<i>Budget Act Total</i>	<i>\$ 256,825</i>	<i>\$ 265,555</i>	<i>8,730</i>	<i>3.0</i>
			0	
Federal Trust Fund	40,777	38,081	-2,696	-6.6
Harbors and Watercraft Revolving Fund	1,355	1,016	-339	-25.0
Reimbursements	15,096	9,918	-5,178	-34.3
<b>Total</b>	<b>\$ 314,053</b>	<b>\$ 314,570</b>	<b>\$517</b>	<b>1.2</b>

**NOTE:** This chart does not reflect the proposed budget balancing reductions.

## 1. Private Vehicle Inspections at Border Protection Stations

**Background.** The impacts of invasive pests species are economically and environmentally devastating. The California Department of Food and Agriculture (CDFA) estimates that approximately 95 percent of all non-native species established in California's environment have been introduced as hitchhikers on materials brought in by people. A risk analysis conducted by CDFA indicated that people bring materials, which can harbor invasive pest species, into California over 240 times each day in private vehicles.

California Food and Agriculture Code Section 5341 requires the Secretary to establish "plant quarantine inspection station for the purpose of inspecting all conveyances which might carry plants or other things which are, or are liable to be, infested or infection with any pest." In 2003, the private vehicle inspections at the border were discontinued due to funding constraints. Since then the number of quarantine incidents has increased by more than 50 percent.

**Inspection Stations.** All 16 of the state's border inspection stations ceased performing inspections on private vehicles in 2003 due to funding constraints. In 2006-07, the Legislature provided funds to operate the border inspection station at Needles as a pilot project. In 2007-08, the funding was increased due to the success of the Needles project and the need to inspect boats for the Quagga Mussel, and an additional four inspection stations began to inspect private vehicles. Currently five border inspection stations perform inspections on private vehicles, but not 24-7.

**Governor's Budget.** The Governor's Budget proposes \$7,509,000 (\$7,099,000 from the Motor Vehicle Account and \$407,000 from General Fund) and 51 permanent positions and 69 temporary positions to operate all Border Protection Stations on a full-time basis and inspect all private vehicles entering California for pest infested materials.

**Staff Analysis.** With the current budget deficit it may not be wise to grow state services at a rapid pace. Since the current border inspection stations have been successful, phasing the other stations into service is likely to produce similar success.

**Staff Recommendation.** Staff recommends that the Subcommittee approve \$2,207,000 from the Motor Vehicle Account and no General Fund for the border protection stations. Staff recommends that the Subcommittee approve 13 new positions and 17 temporary positions.

## 2. Light Brown Apple Moth

**Background.** The Light Brown Apple Moth (LBAM) is a native of Australia that attacks a broad range of crops. In California there are 250 plant species that are susceptible to the LBAM, and fruit crops and vegetables are especially vulnerable. During an outbreak, the LBAM has been known to cause damage to 85 percent of a field's crop.

In February 2007 the LBAM was discovered in the City of Berkeley. Trap inspections resulted in finding the pest in 11 counties encompassing 400,000 acres.

**Eradication Efforts.** The California Department of Food and Agriculture (CDFA) conducted aerial spraying and on-the-ground spraying for the LBAM. The aerial spraying was a pheromone intended to disrupt the mating behavior of the moths. The pheromone was reviewed by the Office of Environmental Health Hazard Assessment and the Department of Pesticide Regulation before the spraying began and during the course of the spraying on court orders. Both times found the spraying to have no discernible link to human illnesses. CDFA received 330 reports of illness that were blamed on the aerial spraying.

The on-the-ground spraying with a pesticide took place at infestation areas and 200 meters around each small outlier infestation. Also, a twist tie formulation of the LBAM pheromone was registered in California and is used at the outlier infestations since its application is labor intensive.

Additional responses included statewide detection efforts, quarantine of infected nursery stock, and containment efforts.

**Funding.** In 2007-08, the Legislature provided CDFA with \$2 million General Fund for emergency Light Brown Apple Moth eradication efforts. In addition, the state anticipates receiving \$20 million in federal funds to fight the LBAM.

**Governor's Budget.** The Governor's Budget proposes 18 permanent positions for the Light Brown Apple Moth Eradication Program. The funding for these positions would come from General Fund.

**Staff Analysis.** The LBAM eradication efforts are an emergency response to a pest. These efforts should decrease dramatically within a few years as the LBAM is eradicated.

**Staff Recommendation.** Staff recommends that the Subcommittee approve the budget proposal as limited-term positions.

### 3. Quagga Mussel Fund Shift

**Background.** The Quagga Mussel is a highly invasive freshwater mussel that is capable of devastating aquatic ecosystems and impacting water infrastructure. Early estimates indicate that the establishment of this species in California waters can result in costs to the state of at least \$70 million in infrastructure costs and \$40 million in annual maintenance. The Quagga Mussel is spread by boats that are moved from one body of water to another.

**Governor's Budget.** The Governor's Budget proposes \$2,492,000 General Fund for the Quagga Mussel border inspections. Of this funding, \$2,379,000 is a fund transfer from the Department of Fish and Game and \$113,000 is new General Fund for employee compensation.

**Staff Recommendation.** Staff recommends that the Subcommittee approve \$2,492,000 General Fund for this request.

#### 4. Specialty Commissions – Informational Item

The California Department of Food and Agriculture (CDFA) has over 50 marketing programs for agricultural commodities grown in California. CDFA, with the support of the Legislature, over the past two years has been auditing various marketing boards and commissions. The purpose of marketing programs is supposed to be to provide agricultural producers and handlers an organizational structure, operating under government sanction, which allows them to solve production and marketing problems collectively that they could not address individually. Current marketing programs' activities include commodity promotion, research, and maintenance of quality standards. Some of the programs carry out all three authorized activities while others carry out only one or two, depending on the needs of each respective industry. None involve volume control and cooperative price establishment (which is specifically prohibited by law).

As recently reported in the *LA Times* on April 9, CDFA issued a cease and desist order that it intended to abolish the California Tomato Commissions after the audit found significant fiscal mismanagement. There were lavish conferences, travel, stretch limousines, and other irregularities in spending.

Other CDFA audits of other marketing entities, as the *LA Times* disclosed, raised serious questions about various expenditures of the Kiwi Fruit Commission, the California Milk Processor Board, and the California Forest Products Commission (CFPC). This latter entity was the subject of a proposed Subcommittee action last year based on concerns that the commission's actions were too closely associated with the political agenda of the state's timber industry and were overly political in nature, although this issue was not pursued in the audit. Instead, it was addressed in an appendix to the audit by CDFA's chief counsel, who disagreed with the view of the subcommittee, except for some examples where CFPC resources were clearly used to advocate for changes in state laws that would be supported by industry groups.